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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 000367

SIPDIS

DEPARTMENT FOR S/RAP, NEA AND SCA

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TAGS: [ENRG](#) [EFIN](#) [ECON](#) [PREL](#) [PK](#) [AE](#)
SUBJECT: TUNING OUT POLITICS, ABRAAJ CAPITAL TRIES TO REBUILD KARACHI
ELECTRICAL SUPPLY COMPANY

REF: ISLAMABAD 02022

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CLASSIFIED BY: Justin Siberell, Consul General.

REASON: 1.4 (b), (d)

¶1. (C) Summary: Abraaj Capital, a UAE-based private equity firm, is optimistic its investment in Karachi Electric Supply Company (KESC), which supplies electricity to over 20 million people, is succeeding in turning around the company. CEO Arif Naqvi believes that KESC's long term viability would be all but assured if the Pakistani government were to free up working capital and tone down its public discussion of re-nationalization of KESC. Abraaj believes Pakistan has much riding on the success of this project - namely its future ability to attract big investors. Naqvi will be in Washington in mid-September and would welcome further discussions on Pakistan's energy strategy. End Summary.

(Ad)venture Capitalism

¶2. (C) Abraaj Capital is the largest private equity firm in the Middle East and South Asia. Its investors, according to Founder/CEO Arif Naqvi, include most of the governments in the region and many of the highest net worth investors from throughout the GCC. Abraaj manages USD 7 billion in investor funds. Abraaj currently has four major investments in Pakistan worth USD 700 million, making it the largest foreign investor in Pakistan he believes.

¶3. (C) In a September 1 meeting, Consul General applauded Abraaj's commitment to investment in Pakistan and noted the USG's interest in near-term improvement and expansion of electricity supply to Karachi residents as a means to bringing greater stability to the Karachi metropolitan area. Naqvi explained that Abraaj had agreed in 2007 to take over management of the Karachi Electric Supply Company following a negotiation of several pre-conditions with the Government of Pakistan (GOP). One of those pre-conditions was a write-off of 32 billion rupees (which Naqvi lamented has been heavily criticized in the Pakistani press as a kick-back of sorts). In return, Abraaj committed to a USD 360 million investment in KESC over a three year period, of which, Naqvi said, USD 150 million has already been deployed. Naqvi noted that the GOP has asked Abraaj to

accelerate its delivery schedule; the company is considering the request now. Abraaj gained a controlling stake in KESC in September 2008.

14. (C) Naqvi described the KESC investment as "(Ad)venture capitalism," confiding that this was Abraaj's first foray into an investment with an overtly political element. Naqvi complained that Abraaj has increasingly been the target of "potshots" from the media, public opinion and, of particular concern, Pakistani national-level leaders who seem to be playing up to strong anti-privatization forces by calling for a re-nationalization of KESC (despite, he claims, reassurances to the contrary behind the scenes). Nonetheless, Naqvi believes Abraaj has put KESC on the right track. He noted that there had been no upgrades to the Karachi electrical grid in 20 years and that it would require at least 36 months to address that issue. Naqvi also noted that the GOP has not yet followed through on its contribution of USD 140 million (another one of the preconditions to Abraaj's initial investment).

Too Much at Stake to Fail

15. (C) Naqvi said he met recently with the Pakistani Minister of Finance to address KESC's future. He conveyed two points: a) USD 100 million in working capital, allegedly tied up in receivables, must be released by the GOP; and b) the GOP must stop fueling the political fire through public calls for KESC's nationalization (however insincere those calls may be). In the immediate term, the calls for nationalization are spooking

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commercial banks and making it difficult to attract additional investors to the project. Looking ahead, Naqvi made a compelling argument that if Abraaj's KESC investment works, their high-profile investors will look favorably upon future investment opportunities in Pakistan. Failure, by a world-class company nonetheless, would do the opposite. With so much at stake for Pakistan, he argued, the USG should pressure the GOP to quiet its rhetoric and give Abraaj the breathing room it needs to turn KESC around.

Comment

16. (C) Arif Naqvi was surprisingly forthcoming in his assessment of Abraaj's work with KESC. His optimism over the long-term success of his investment was consistent throughout the discussion. His frustrations were likewise on display, however. He is convinced Abraaj has put a management team in place to turn around KESC and, while clear that additional working capital of USD 100 million was required in the near term, was not pre-occupied with funding. He was clearly worried, however, that investors will flee should talk of nationalization gain further momentum. He several times asked for the USG's intervention with the GOP. To that end, he has offered to discuss with Department officials Pakistan's energy strategy during a trip to Washington in mid-September.
SIBERELL